

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL NOTE**

**HB 531 - SB 593**

March 2, 2023

**SUMMARY OF BILL:** Authorizes any member of the Tennessee Consolidated Retirement System (TCRS) who served in active federal duty in the United States armed forces, under certain circumstances, to establish retirement credit for the period of military service, not to exceed five years of service credit. Requires service to be established in one-year increments. Does not allow a member to establish retirement credit if the member had their military service terminated by sentence of a court-martial.

**ESTIMATED FISCAL IMPACT:**

**Increase State Expenditures – \$68,329,500/FY23-24  
\$53,387,200/FY24-25**

**Increase Federal Expenditures – \$21,193,800/FY23-24**

**Increase Local Expenditures – \$3,165,500/FY23-24\*  
\$35,591,400/FY24-25\*  
Up to \$8,911,900/FY23-24/Permissive  
Up to \$93,866,400/FY24-25/Permissive**

**Other Fiscal Impact – The total additional lump sum pension liability to the Tennessee Consolidated Retirement System is estimated to be \$175,791,100.**

Assumptions:

- An active or retired member of TCRS must meet one of the following criteria under the proposed legislation:
  - Must have first enlisted or been inducted for duty on a date when the federal government was actively inducting persons in the armed forces under federal draft laws.
  - Must have been a reservist or member of the national guard who was ordered to duty under federal law.
  - Must have first enlisted or been inducted during a time when the federal government was actively inducting persons into the armed forces under federal draft law.
  - Must have first enlisted or been inducted as a result of voluntarily entering on active duty.

**HB 531 - SB 593**

- Based on information from the Tennessee Consolidated Retirement System (TCRS), it is assumed the average member will be eligible to establish two years of service credit.
- The total increase of liability to the pension system relative to eligible military service members who are state employees is estimated to be \$84,775,056.
- Based on information provided by TCRS, the cost for eligible military service members who are state employees is to be paid during FY23-24.
- Retirement benefits for state employees are funded 75 percent with state funds and 25 percent with federal funds.
- The one-time increase in state expenditures in FY23-24 for eligible military service members who are state employees is estimated to be \$63,581,292 ( $\$84,775,056 \times 75\%$ ).
- The total one-time increase in federal expenditures in FY23-24 for eligible military service members who are state employees is estimated to be \$21,193,764 ( $\$84,775,056 \times 25\%$ ).
- Based on information from TCRS the total increase of liability to the pension system relative to eligible teachers is estimated to be \$96,892,286.
- The cost for teachers by LEAs will be funded over a two-year period (FY23-24 and FY24-25).
- Based on time-value-of-money calculations using a 20-year amortization and a 6.75 percent interest rate for estimating the FY23-24 impact relative to eligible teachers, the first-year increase in expenditures is estimated to be \$7,913,675.
- The remaining liability to be paid in FY24-25 is estimated to be \$88,978,611 ( $\$96,892,286 - \$7,913,675$ ).
- Retirement benefits for retired teachers are funded 60 percent with state funds and 40 percent local government funds, all of which will be a mandatory increase in local government expenditures.
- A one-time increase in state expenditures in FY23-24 of \$4,748,205 ( $\$7,913,675 \times 60\%$ ).
- The total one-time increase in state expenditures in FY23-24 of \$68,329,497 ( $\$63,581,292 + \$4,748,205$ ).
- A one-time increase in state expenditures in FY24-25 of \$53,387,167 ( $\$88,978,611 \times 60\%$ ).
- A one-time mandatory increase in local expenditures in FY23-24 of \$3,165,470 ( $\$7,913,675 \times 40\%$ ).
- A one-time mandatory increase in local expenditures in FY24-25 of \$35,591,444 ( $\$88,978,611 \times 40\%$ ).
- Local governments may choose to adopt a resolution authorizing such additional benefits for local government employees.
- Any permissive increase in local government expenditures for the additional liability is dependent on the number of local governments adopting such resolution and the number of applicable employees within those local governments.
- The permissive increase in local government expenditures would be funded 100 percent by local government and the precise amount cannot be reasonably determined.
- Based on information from TCRS, the total increase of liability to local pension systems relative to eligible local employees is estimated to be \$102,778,358.

- The cost for local employees will be funded over a two-year period (FY23-24 and FY24-25).
- Based on time-value-of-money calculations using a 20-year amortization and a 6.75 percent interest rate for estimating the FY23-24 impact relative to eligible local employees, the first-year permissive increase in local expenditures is estimated to be up to \$8,911,911.
- The remaining permissive increase in local expenditures to be paid in FY24-25 is estimated to be up to \$93,866,447 (\$102,778,358 - \$8,911,911).

*\*Article II, Section 24 of the Tennessee Constitution provides that: no law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

/mk